

BOARD OF SUPERVISORS

GILA COUNTY, ARIZONA

Date: July 18, 2005

JOSÉ M. SANCHEZ

Chairman

STEVEN L. BESICH

Clerk of the Board

TOMMIE C. MARTIN

Vice-Chairman

By: Marilyn Brewer

Deputy Clerk

SHIRLEY L. DAWSON

Member

Gila County Courthouse
Globe, Arizona

PRESENT: Jose M. Sanchez, Chairman; Tommie C. Martin, Vice-Chairman; Shirley L. Dawson, Member; Steven L. Besich, County Manager/Clerk; Marian Sheppard, Chief Deputy Clerk; and, Bryan Chambers, 2nd Chief Deputy County Attorney.

The Gila County Board of Supervisors met in Special Session at 10:00 a.m. this date. Dixie Mundy led the Pledge of Allegiance and Jeremy Goodman delivered the Invocation.

Chairman Sanchez stated that before addressing agenda items, John Nelson, Deputy County Manager, would provide a presentation on the budget. Mr. Nelson presented the Board with a packet of information pertaining to the 2005-2006 proposed budget. Titles of each chart with a brief summary follows:

1. General Funds-Fund Balance-FY03 FY04 FY05

2. General Funds-Fund Balance-12 Month Moving Average - July 2004 to June 2005, began with an average fund balance of \$3.8 million and ended at \$5.8 million at the end of May, and it is projected that the figure will be up to \$6.0 million at the end of June. Mr. Nelson stated that the County will end this year with a \$7-8 million fund balance with an average of \$6 million.

- 3. General Funds-Change in Fund Balance – FY02 FY03 FY04** - He stated the first thing to look at in recommending what a fund balance should be is the amount needed for operations. In charting a fund balance the County uses between \$3-4 million in order to get through the period before the first property taxes are received, so the year should begin with a minimum balance of \$4 million. There is also the question of the type of funds the County should have to be financially solvent. Generally the rule of thumb is that the County should have 5-10% of its total budget in unrestricted reserves, which would be approximately \$3-6 million, so the recommendation would be at least \$5 million. Mr. Nelson stated that if the County needs \$4 million to get through operations and \$5 million for unrestricted reserves, and with the Board of Supervisors having a \$1 million in the contingency fund, he recommends that the fund balance be at \$10 million.
- 4. General Funds-Recommended Fund Balance** - The recommended fund balance should start with \$10 million and end with \$10 million.
- 5. General Funds-Recommended Compared to Actual FY 04-05** - Mr. Nelson provided his recommendations compared to the actual amounts for the 2004-2005 fiscal year. The actual starting figure is approximately \$3 million short of his recommended \$10 million, which he believes is needed to be financially solvent.
- 6. Variance from Recommended Fund Balance**
- 7. Average Variance from Recommended Fund Balance** - Mr. Nelson stated that as of May 2005, the average fund balance currently stands at \$3.3 million. He advised that in the very near future the County jails located in Payson and Globe will need to be renovated, which will require bonding. Gila County's bond would not receive a commercial grading based on the fact that: 1) Gila County is comprised of 3.6% private land and 70% of that lands lies within an extreme fire danger area; 2) 97% of the lands within Gila County are public lands; 3) copper mines operating within the County

don't generate revenue as in past years; and, 4) Gila County has inadequate cash reserves; therefore, the County's bonds would not receive a commercial grading, which means junk bonds that could cost the County at least \$2 million in interest. Mr. Nelson stated that as the budgets and financial strategies are reviewed, in moving forward, the unrestricted cash flow has to continue increasing. For the last three years it has been increased by at least \$1 million per year, which needs to continue for the next couple of years. Chairman Sanchez inquired as to the actions needed to raise the fund balance to \$10 million. Mr. Nelson replied that there is \$33 million in general revenue funds coming in and \$33 million being expended to have a balanced budget. What has been done in the past, and hopefully will be continued with this budget, is a 1% variance with collecting revenues over-planned and a 1% expenditure savings on the other side which generates \$700,000-\$800,000 per year. He stated that the revenue projections have not been pushed to the limit; they are realistic and conservative. Mr. Nelson stated that with the expenditure budgets, all departmental positions in Gila County are funded. He advised that many counties will factor in position vacancies noting that there is a 20% vacancy turnover. It generally takes one month to fill a position, so at all times there is 4% of positions that are vacant, which allows for a 4% vacancy savings. Mr. Nelson stated that this is a valid tool if pushing a budget to the limit as it will generate some savings, but Gila County's budget does not utilize the vacancy factor.

- 8. Tax Levy and "TNT Rate"** (Truth in Taxation Rate) - Mr. Nelson stated that for 2005, the assessed valuation on property was \$365,997,563 and continues to increase. For the year 2006, the assessed valuation increased by \$10,183,685 or 2.8%, which makes last year's property at this year's assessed valuation, a total of \$376,181,248. In addition, new construction amounted to \$11,534,479 for a total assessed valuation for 2006 of \$387,715,727. He also advised that the proposed primary property tax rate for the upcoming fiscal year will remain unchanged from last year at \$4.41.

The increase to be received from assessed valuation at the tax rate of \$4.41 will create a tax levy of \$449,101 or a 2.8% increase and the property tax generated by new construction is \$508,671, with a total tax levy of \$17,098,264. Mr. Nelson provided an overview of the Truth in Taxation/Notice of Tax Increase statutory publication requirements that must be published unless the Board wishes to decrease the tax rate to \$4.29. He advised that if the tentative budget amount is adopted today along with the \$4.41 tax rate, those two figures cannot be increased up to and during the time the Board adopts the final budget on August 1, 2005; the amounts may only be decreased.

9. Maximum Tax Levy & Rate – This chart showed the maximum constitutional allowable tax levy, or the constitutional limit on how much property taxes can actually be raised. For Gila County, the tax levy is \$24,212,070 or a tax rate of \$6.2488 and compared to the \$17,098,264 at the tax rate of \$4.41, the County would have an additional tax levy available in the amount of \$7,113,806 or an increase in the tax rate of \$1.83. This is not a tax Mr. Nelson was recommending but it is available. He also stated the County has a bonding capacity of \$70 to \$100 million.

10. Assessed Values for Tax Years 1995 and 2005 - In 1995, the mines and utilities made up 42% of Gila County's assessed valuation; homes, small businesses and some agriculture made up the other 52%. In 2005, the mines and utilities made up 12% while homes and small businesses made up 88%. The Arizona Tax Research Association states that the mines and utilities pay 2.5 times more than homeowners, and they require little service, so they are subsidizing the homeowners in property taxes, which the Association believes is not fair. Over the last ten years, the area that has been subsidizing the homeowner has been decreasing, which is a structural problem Gila County is dealing with. Mr. Nelson does not think it will go below the 12% for the mines and utilities. Steve Besich, County Manager/Clerk, stated that the Legislature reduced the tax rates for

commercial properties, mines and utilities. In an effort to not shift the tax burden to homeowners, a homeowner rebate was offered, which in the end will increase State costs.

11. Gila County Sales Tax Revenue-12-Month Moving Average

12. Gila County Sales Tax Revenue-12 Month Moving Average-% Change

from June 2002 - Mr. Nelson stated that other than property tax, the sales tax is the largest revenue item in the General Fund budget, and it is subject to change. In June 2002, the County received \$340,660 per month from the State for sales tax; it currently receives \$377,335 for an increase of 10.8%. For the local one-half cent sales tax, in June 2002, the County received \$219,317 per month; it is currently receiving \$220,707, which is an increase of only .6% and is not generating revenue as hoped.

13. State Shared Sales Tax - The State shared sales tax showed that in 2001 the total sales tax shared with counties was \$506,661,075 with Gila County's share being \$4,443,907, or 88/100 of 1%. As of April 2005, the total sales tax shared was \$502,295,284 with Gila County's share being \$3,809,142 or 76/100 of 1%. Vice-Chairman Martin inquired if the total sales tax shared with counties is based on a population factor. Mr. Nelson replied that half of the tax comes from point of sale if the sale was made in Gila County, and the other half comes to the County on population with a hold harmless for assessed valuation with a high property relief pool distributed back by population. Back in 1995, when the mines were 42% of the assessed valuation, half of the sales tax was based on the assessed valuation and was 1.2%. The formula was changed and Gila County has been sliding in sales tax revenue since that time, and Mr. Nelson stated he doesn't see it stopping.

14. Gila County Sales Tax Revenue-12 Month Moving Average, FY 2005-

2006 Budget - The projected local sales tax for the 2005-2006 fiscal year begins the year at \$220,694 and ends at \$226,250, which is less than the amount projected by the State for Gila County.

15. ALTCS (Arizona Long Term Care System) Contribution Per Capita - FY

2005 - This chart showed the ALTCS contribution requirement for each county. The State average cost for ALTCS is \$40.23 per capita, but Gila County pays \$56.83. In relation, Apache County only pays \$6.94.

16. Property Tax Rate Required for ALTCS Payment-FY 2005 - For the property tax required to pay ALTCS, the State average is \$.49 and Gila County pays \$.79, with the cap at \$.90.

17. ALTCS Payment as a Percentage of State Shared Sales Tax-FY 2005 -

The amount a county must pay for ALTCS is determined by a formula which is based on the State's actual costs. The State takes back on average about one-third of State shared revenues for ALTCS, but for Gila County the State takes back two-thirds. Mr. Nelson stated that the County Supervisors Association of Arizona (CSA) has committed to making this ALTCS problem a priority during the next legislative session. He stated that Mr. Besich has proposed a policy that no County will pay higher than the State average per capita, provided a County is not also a provider of ALTCS. Gila County, along with Mohave and Santa Cruz Counties, are the only counties which are precluded from being ALTCS providers at a cost of \$1.8 million. If this proposal becomes policy, Gila County would save \$900,000. The current system is set up so that Gila County has been subsidizing these other counties for the last twenty years costing \$50 million-\$60 million.

18. County Budget Process - The adoption of the tentative budget accomplishes the following: 1) it sets upper expenditure ceiling; 2) authorizes the publication of the budget notice; and, 3) establishes the time and date for a public hearing. The budget adoption process is as follows: 1) a public hearing is held on the proposed budget; 2) all budgets can be revised from the tentative budget (provided the tentative ceiling is not exceeded); and, 3) a roll call vote of the Board is required if the property tax rate is in excess of the TNT rate. Setting the tax rate process is as follows: 1) the tax rate is set for all property taxing jurisdictions within Gila County;

and, 2) the Board of Supervisors does not control tax levies for the special taxing jurisdictions. Mr. Nelson explained that there is a lot of misunderstanding in reference to the County setting the tax rate for special districts such as lighting districts, sanitary districts, water districts, and school districts, etc. The Board of Supervisors does not have the authority to change the tax levy for special districts. The tax levies for all of the special districts are set by the individual boards of directors for each special district. Taxpayers in those special districts have the opportunity to attend those special district board hearings when the budgets are being proposed and adopted. He stated if this Board sets the tax rate of \$4.41, the average property tax increase will be 2.8%. Any other tax increase will be from the taxes of these special districts. Vice-Chairman Martin cited an example of taxes on her home which is \$14.00 for each \$100 of assessed valuation. Of that \$14.00, \$4.00 is a Gila County tax, but the other \$10.00 is for different special district taxes. She stated that most people do not look at those special district taxes on their tax bill, and she believes there needs to be some massive public relations and public information to help people understand this.

19. Total Gila County Budget - FY 2004-2005 & FY 2005-2006 - The total proposed Gila County budget is \$66,206,010. That is an increase of \$4,268,820 or a 6.9% increase over last year's budget. The General Fund budget, which utilizes the majority of the property taxes and includes all funding, is \$33,893,058, an increase of \$1,897,562 or a 5.9% increase. The largest increase is the Road Fund at \$14,374,023, an increase of \$2,713,829 or a 23.3% increase. The Road Fund is for State money, HELP loans, grants, and HURF (Highway User Revenue Funds) exchanges for improving all road systems; it is not for operations or capital projects.

20. Gila County General Funds Revenues - FY 2004-2005 & FY 2005-2006
- Most increases in this area average 4%-5% with the exception of Intergovernmental Revenue which is primarily due to the request for four

additional positions in the Child Support Division; however, the \$283,000 expense is 100% reimbursed by the State to offset the expense.

21. Gila County General Funds Expenditures - FY 2004-2005 & FY 2005-

2006 - The largest expenditure increases are in the category of Law Enforcement and Judicial Services. There is also a significant increase in Health-Welfare-Sanitation mostly for the Flood Control District and because the Health and Human Services Division previously had a \$100,000 carryover which it doesn't have this year. Also included is a reserve of \$100,000 for a 2.5% anniversary increase for employees, as well as a \$1,250,000 contingency available for emergencies. The total increase in expenditures is \$1,897,562 or 5.93 %.

22. Cost Increase-General Fund-FY 2005-2006 - The General Fund overall cost increases are related to employees. The Board approved a 2.5% COLA increase at a cost of \$275,000, medical insurance increase cost of \$110,000, and State retirement increase totaling \$353,000. The State retirement increase affected both the employer and employee.

Mr. Nelson called on Richard Gaona, Finance Director, to speak on five of the major funding increases in the proposed 2005-2006 fiscal year budget, as follows: 1) County Attorney's Office legal secretaries were given a \$1,000 salary adjustment; 2) County Attorney Child Support Division increased by the request for four full time employees (FTE); 3) Sheriff's Department personnel increased by 5 FTE now, 5 FTE in January 2006, and 5 FTE in the next budget year; 4) Indigent Legal Defense Attorneys for Child Protection Service increased; and, 5) Regional Justice Courts additional FTE for both Globe and Payson, along with some positions that were given a pay grade reclassification adjustment. Mr. Gaona advised that there are discrepancies on pay scales which need to be addressed at a later date. He also noted for the record that pages 24 and 25 of the budget packet were not included. Page 24 was to be a pie chart but he was unable to have it approved in time, and page 25 was the

list of major funding increases as noted above. The Board thanked Mr. Nelson and Mr. Gaona for today's budget presentation and preparing the budget.

Upon motion by Vice-Chairman Martin, seconded by Supervisor Dawson, the Board convened as the Gila County Library District Board of Directors in order to address agenda item number two. Jacque Griffin, Assistant County Manager/County Librarian, who was unable to attend the meeting, had requested the adoption of the fiscal year 2005-2006 tentative budget for the Gila County Library District in the amount of \$894,301. Upon motion by Vice-Chairman Martin, seconded by Supervisor Dawson, the Board unanimously adopted the fiscal year 2005-2006 tentative budget for the Gila County Library District in the amount of \$894,301. **(A detailed breakdown of the Library District Budget is contained on page 11 of the entire Gila County Budget.)**

Upon motion by Vice-Chairman Martin, seconded by Supervisor Dawson, the Board reconvened as the Board of Supervisors.

Mr. Nelson requested the adoption of the fiscal year 2005-2006 tentative budget for Gila County in the amount of \$66,206,010, an increase over last year's budget of \$4,268,820 or a 6.9% budget increase. Upon motion by Vice-Chairman Martin, seconded by Supervisor Dawson, the Board unanimously approved the fiscal year 2005-2006 tentative budget for Gila County in the amount of \$66,206,010. **(A copy of the FY 2005-2006 Budget for Gila County is permanently on file in the Board of Supervisors office.)** Mr. Nelson thanked the Board for the adopting the tentative budget and stated that he has provided the Board with worksheets showing the budgets for each division/department that show how the two critical figures were arrived at that were adopted at today's meeting. He stated that the Board has not approved nor adopted the worksheets so every number in the worksheets is open to scrutiny and change by the Board prior to August 1, 2005, when the Board will hold a public hearing on the tax increase. Chairman Sanchez thanked Mr. Nelson, Mr. Gaona, and the Finance Department for their work on the budgets.

Chairman Sanchez moved to agenda item number 4, a scheduled Executive Session pursuant to A.R.S. §38-431.03 (A)(3)(4) to obtain legal advice regarding Eagle West, LLC, Case No. 03-bk-02530-RJH, Chapter 11, for possible resolution.

Upon motion by Vice-Chairman Martin, seconded by Supervisor Dawson, the Board convened into Executive Session at 11:38 a.m.

Upon motion by Supervisor Dawson, seconded by Vice-Chairman Martin, the Board reconvened into the Special Session at 11:56 a.m.

Vice-Chairman Martin made the motion that the Board instruct the County Attorney's Office to proceed as directed in settlement negotiations regarding Eagle West, LLC, Case No. 03-bk-02530-RJH, Chapter 11. Upon the motion being seconded by Supervisor Dawson, the Board unanimously approved the County Attorney proceeding as instructed.

At this time each Board member and the Chief Administrator were presented the opportunity to give a brief summary of current events as allowed by A.R.S. §38-431.02(K).

There being no further business to come before the Board, Chairman Sanchez adjourned the meeting at 12:08 p.m.

Jose M. Sanchez, Chairman

ATTEST:

Steven L. Besich, County Manager/Clerk